



Covenant Hills Town Hall Meeting
September 21, 2022



Welcome

We're glad you joined us!

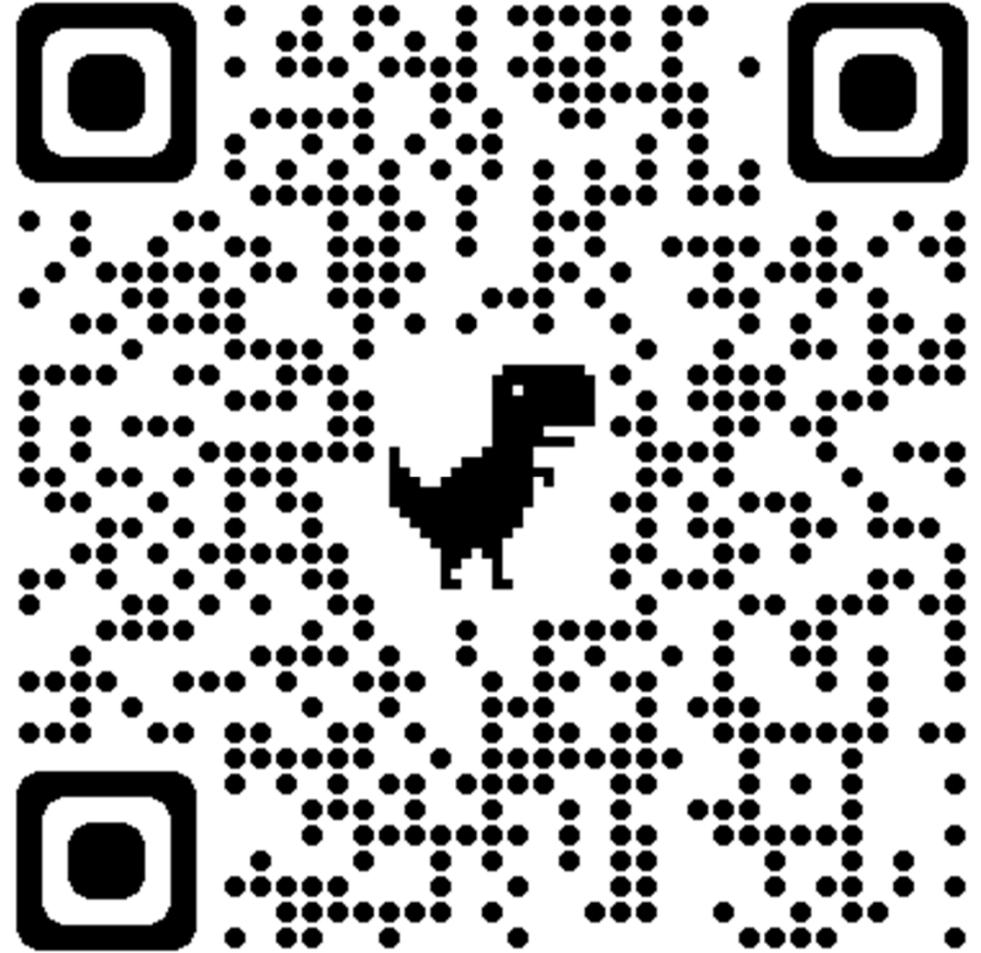


Q & A

Take a photo of this QR Code to submit your question.



You can also submit a question via text by texting "LARMAC303" to 22333.





- Stephanie Jebbia, LARMAC AGM
- Samantha Talley, LARMAC Board Member
- Mike Healy, LARMAC Operations Director
- Roger Schlierkamp, MSc, PE GMU Director of Pavement Engineering
- Fred Whitney, Whitney | Petchul LARMAC General Counsel
- Ken Gibson, LARMAC General Manager

Agenda

- Looking back at the Timeline
- Overview of the Pavement Management Plan (PMP) Study
- PMP Study Findings and Desired Outcomes
- Historical Maintenance
- Project Bidding Process for Phase 1
- Special Benefit Area Private Street Responsibilities
- Reserve Funding

Answers to the Most Frequently Asked Questions:

- All Ladera Ranch residents can drive through Covenant Hills- why don't all residents pay for the street repairs?
- Were the roads constructed poorly? If not, why are the streets failing?
- Are there other funding options?

Identifying the Issues and Taking Action



Timeline of Events

2021 Contracted with GMU Pavement Engineering to Assess Pavement Conditions



May 2021 Received Pavement Management Plan



December 2021 Plan Reviewed by Board of Directors



March 2022 Proposals for Asphalt Repair Project-Phase 1 Reviewed by Board of Directors



May 2022 Budget Mailer with Increase in Reserve Contribution to Fund Asphalt Repairs/Replacement & Slope Renovations



June 2022 Reserve Funding Letter and Link to Survey



September 2022 Town Hall Meeting

Identifying & Communicating the Issues



Seeking Guidance from Experts

Overview of Pavement Management Plan Study

Overview of Pavement Management Plan

A pavement management plan is a high-level study that objectively rates the pavement’s current surface condition. Each section of pavement is assigned a Pavement Condition Index (PCI) which is a rating from 0-100.

The PCI rating determines what type of upkeep each section of pavement requires.

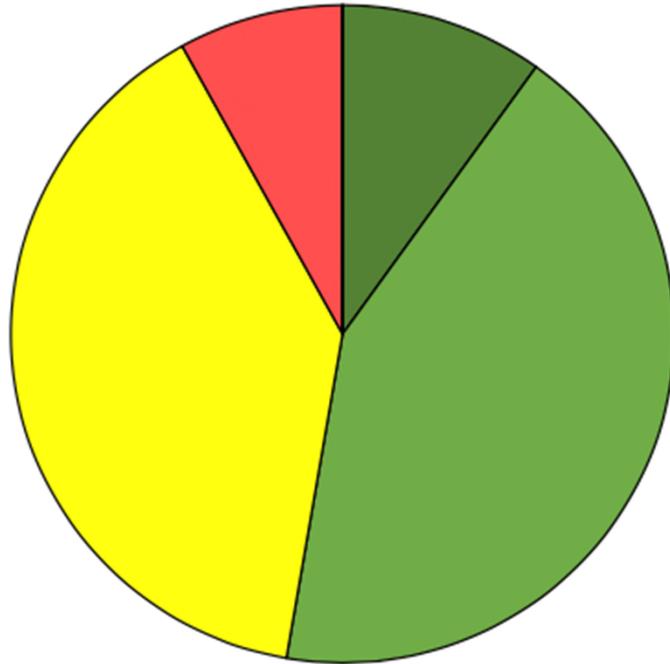
- Good condition = Maintenance
- Fair condition = Rehab
- Poor condition = Reconstruction

Table 1. PCI Condition Categories and Description.

Condition Category	PCI Range	Pavement Condition Description
Good	86-100	Pavement has little or no surface distress.
Satisfactory	71-85	Pavement has some distresses, with aging-related distresses being dominant.
Fair	56-70	Pavement has significant level of distresses, including both load- and aging-related distresses.
Poor	41-55	Pavement has major distresses, including both significant load- and materials-related distresses.
Very Poor	26-40	Pavement has significant amount of major distresses and is at the end of its service life.
Serious	11-25	Pavement has nearly disintegrated and is at or beyond the end of its service life.
Failed	0-10	Pavement has entirely disintegrated and is beyond the end of its service life.

PCI Covenant Hills:

Overall Covenant Hills Network



■ Good ■ Satisfactory ■ Fair ■ Poor

Broken Arrow St (PCI = 50 Poor)



Portalon Ct (PCI = 61 Fair)



Oberon Rd (PCI = 74 Satisfactory)



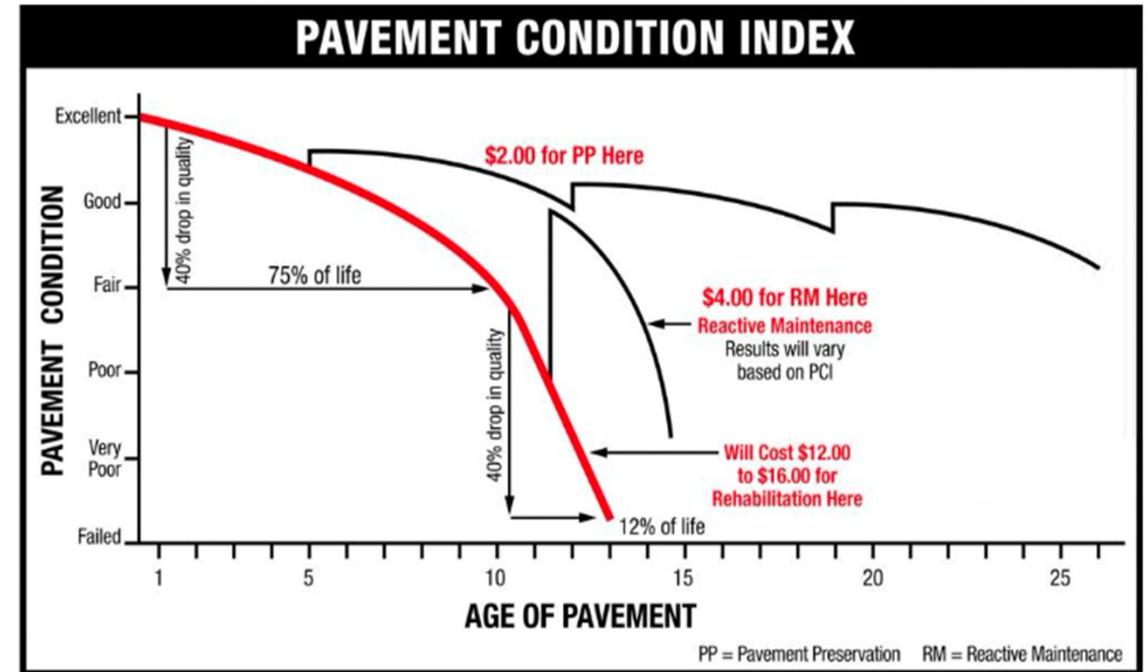
Buckaroo Rd (PCI = 90 Good)



Value of Proactive Maintenance

As pavement deteriorates, it becomes more expensive to maintain. During the first 10 years of life, asphalt is expected to deteriorate at a rate of 2.5% a year. After 10 years of life without proper maintenance and rehab, pavement is expected to reach “fair/poor” condition. At that time, it will average a deterioration rate of 13.3% per year.

- The average cost to maintain asphalt in “good” condition is +/- \$2.00 per sqft.
- The average cost to reconstruct asphalt in “poor” condition is +/- \$12.00 – \$16.00 per sqft.

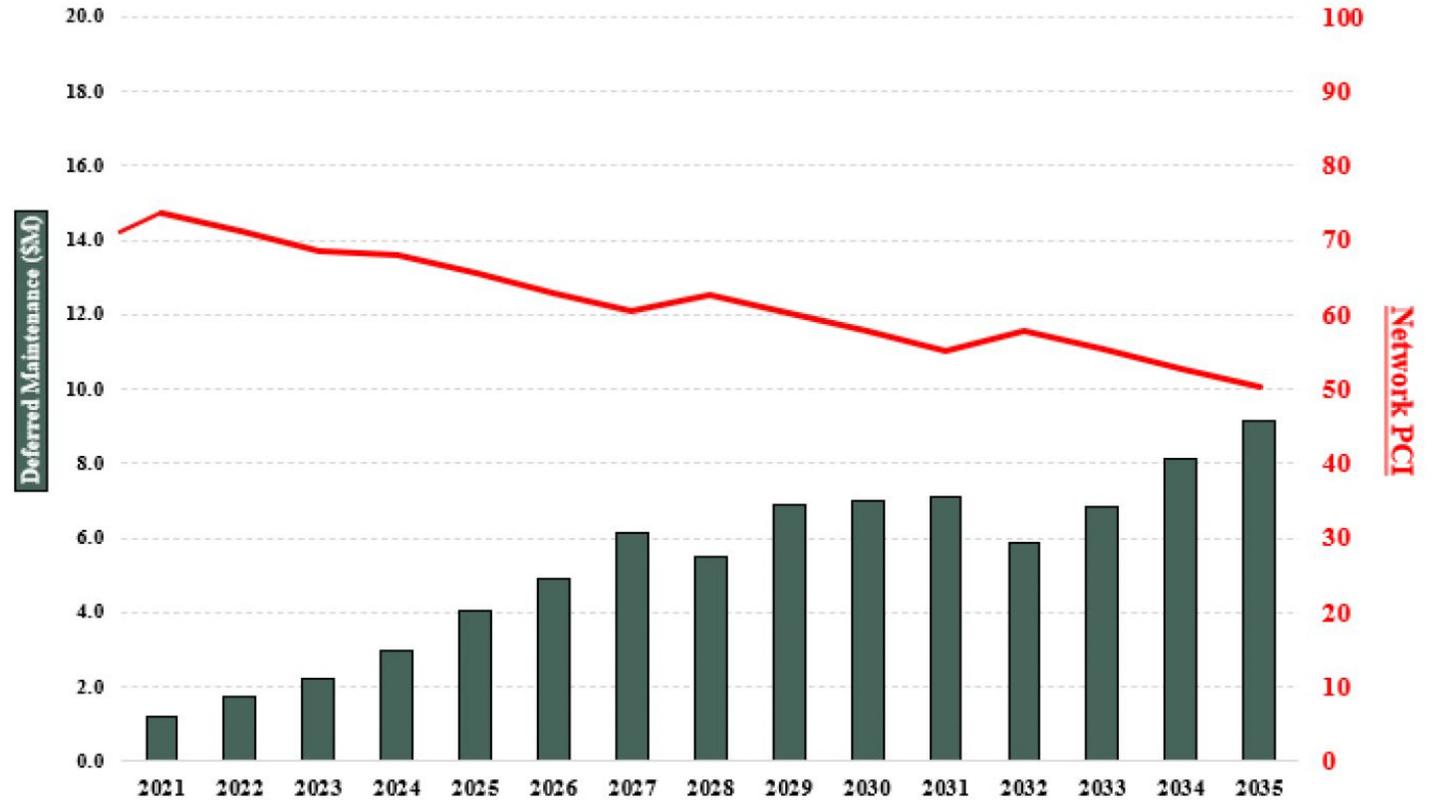




Covenant Hills PCI – FY 21-22 Projected Budget Scenario

2035 Information:

- PCI: 50 (Poor)
- Deferred Maintenance: \$9.2 million



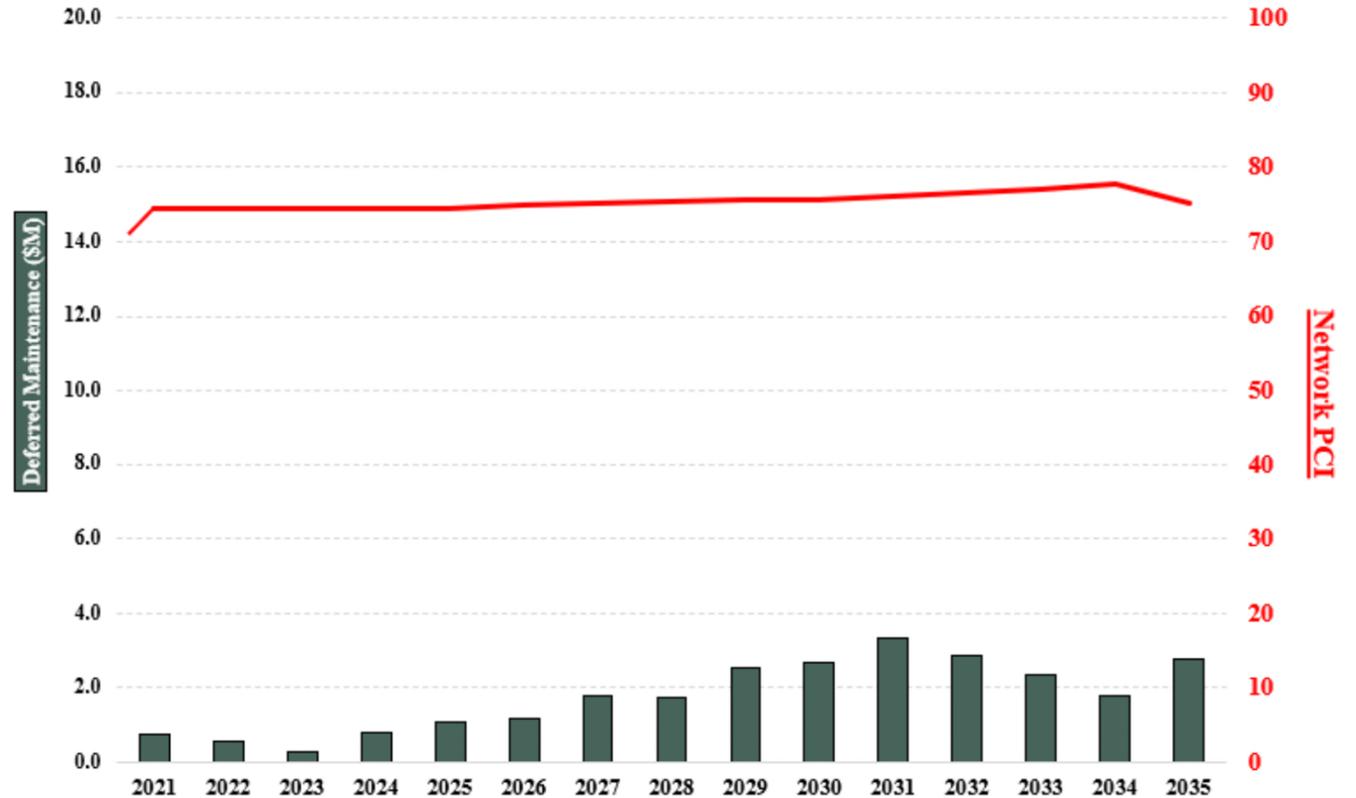
Year	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
Budget (\$)	407K	0.0	0.0	470K	0.0	0.0	0.0	1.3M	0.0	0.0	0.0	1.3M	0.0	0.0	0
Deferred Maintenance (\$)	1.2M	1.7M	2.2M	3.0M	4.0M	4.9M	6.1M	5.5M	6.9M	7.0M	7.1M	5.9M	6.8M	8.1M	9.2M
Predicted PCI	74	71	69	68	65	63	60	63	60	58	55	58	55	53	50



Covenant Hills PCI – Improve & Maintain PCI at 75 Scenario

2035 Information:

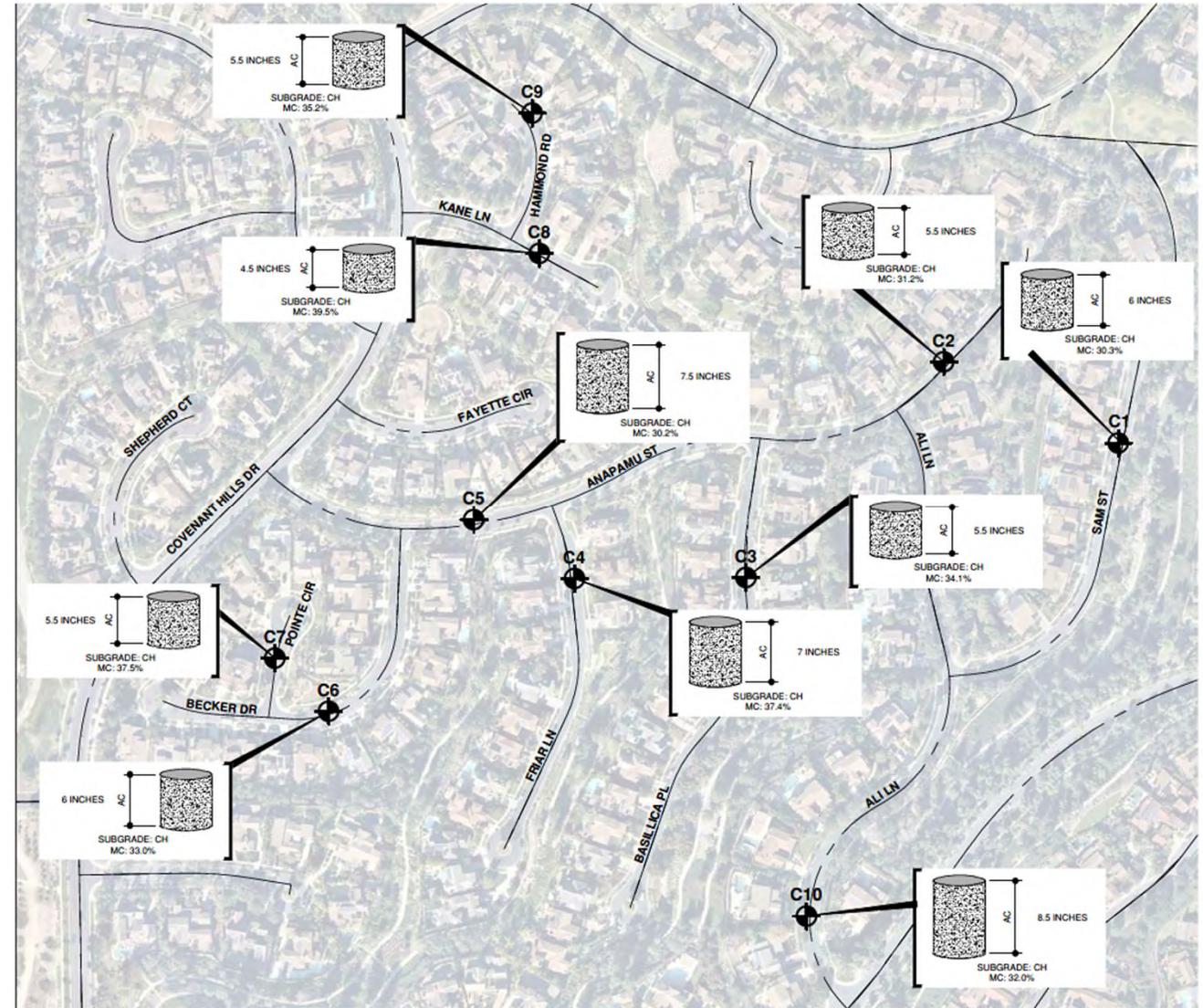
- PCI: 75 (Satisfactory)
- Deferred Maintenance: \$2.8 million



Year	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
Budget (\$)	690K	676K	660K	692K	691K	672K	689K	691K	691K	685K	679K	688K	677K	684K	684K
Deferred Maintenance (\$)	700K	570K	300K	780K	1.1M	1.2M	1.8M	1.8M	2.5M	2.7M	3.4M	2.9M	2.3M	1.8M	2.8M
Predicted PCI	74	74	74	74	74	75	75	75	76	76	76	76	77	78	75

Pavement Core Samples

- Drilled to identify thickness and collect subsurface materials for laboratory testing, pavement structural analysis and development of pavement reconstruction recommendations.



Core Samples



Photo 3: Coring location C-5. Surface contains low to medium-severity longitudinal and transverse cracking.



Photo 4: Core sample C-5 measuring 7.5 inches thick AC with an existing separated surface lift of 2.0 inches.



Maintenance History

Seal Coating:

Application of a protective coating to prevent water intrusion and deterioration from sun damage. Does not repair damage, only slows it down.

Spot Repairs:

Complete removal and replacement of asphalt to address localized failures and subgrade failure.



Previous Projects

FY2016/2017

- Seal Coat
- Spot Repairs

FY2011/2012

- Seal Coat
- Spot Repairs

Every Year:

- Spot Repairs



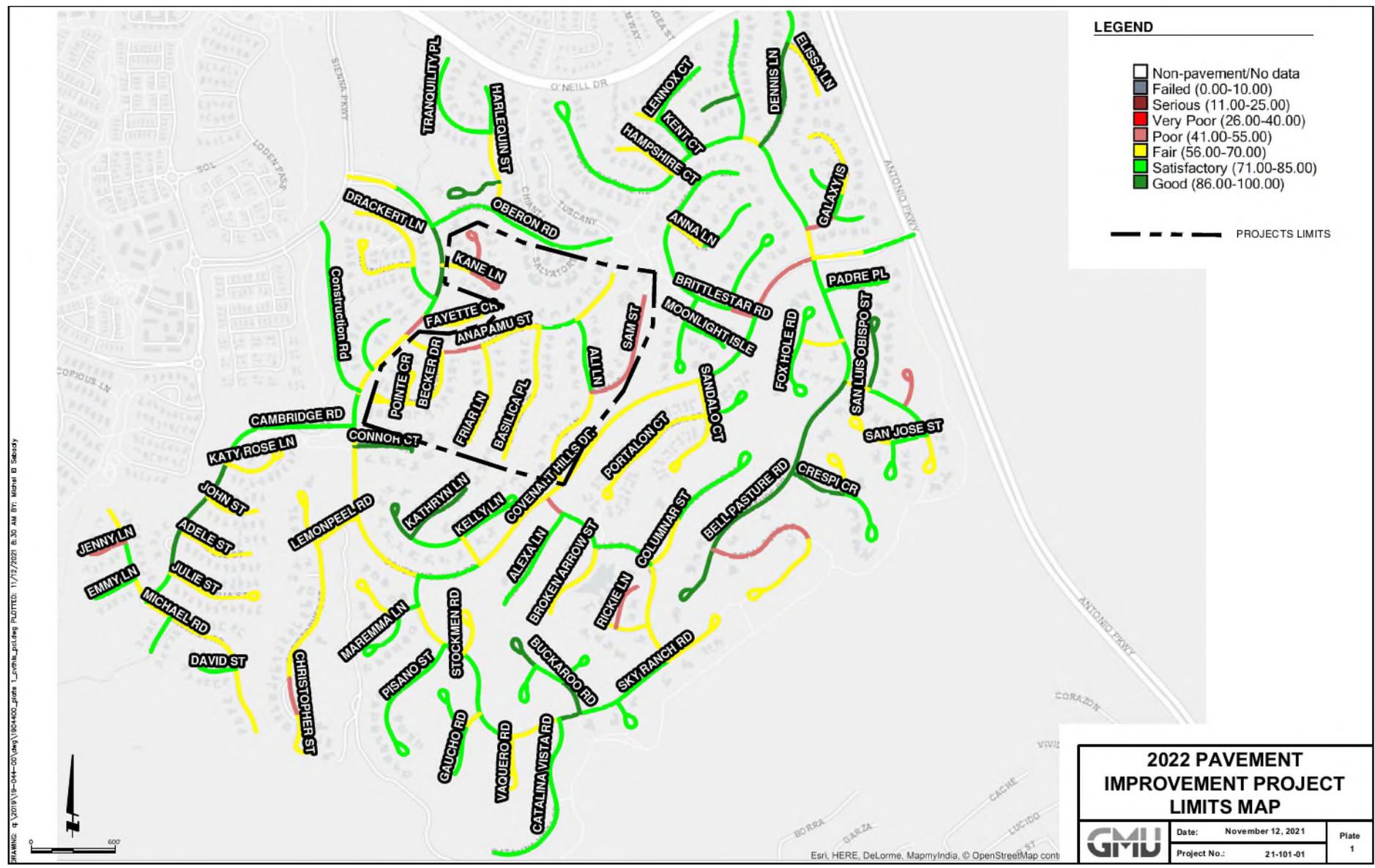
Examples Of Asphalt Repairs/Upkeep



Historical Asphalt Maintenance



Planned for October 2022



Project Bidding Process – Phase 1



Bidding Process - Year 1 Project

Vendor Provided Proposals:

A request for proposals (RFP) was created and shared with five vendors. Five proposals were returned from \$1,037,705 to \$1,164,646.

Vendors that submitted proposals:

- Premier Paving
- Mission Paving
- Champion Paving
- Caliber Paving
- Ben's Asphalt

Base Bid					
Item No.	Description	Quantity	Units	Unit \$	Subtotal
1	Full-Depth Reclamation (FDR): Remove top 3.5 inches of material, export, and dispose to allow for construction of 3.5-inch AC section while maintaining existing grades & elevations.	226,240	SF		
2	Full-Depth Reclamation (FDR): Pulverize and blend remaining asphalt, subbase & subgrade to allow for the construction of a 12.0-inch thick cement stabilized pulverized base section (CSPB). Price to be inclusive of grading support, moisture conditioning, compaction, moisture curing, micro-cracking, etc.	226,240	SF		
3	Full-Depth Reclamation (FDR): Cement for CSPB @ 6.0 percent (6.5 lbs / SF)	747	Tons		
4	Construct 3.5-inch thick AC section, Type III C3 PG 64-10 , 0% RAP max (Area = 226,240 SF) in two lifts.	4,949	Tons		
5	Tack Coat: HPS tack, 0.10 gal / sy (226,240 SF)	2,765	Gal		
6	Localized AC Pavement Repair (Patch Repair for 6 Locations indicated on Sheet C-5): Remove/export 8.0 inches of existing AC/SG material, prep/recompact exposed bottom	220	SF		
7	Localized AC Pavement Repair (Patch Repair for 6 Locations indicated on Sheet C-5) Construct 8.0-inch thick AC Type III C3 PG 64-10, 0% RAP	11	Tons		
8	Pre-Construction Condition Documentation	1	LS		
9	Adjust all utility covers to grade	1	LS		
10	Restripe (2 coats) and install pavement markers per existing layout and color scheme	1	LS		
11	Traffic Control	1	LS		
12	Resident Notifications	1	LS		
13	Worksite Maintenance and Project Appearance	1	LS		
14	Pothole to identify depth & location of all existing utilities/lines/cables/wires & protect during construction	1	LS		
15	Mobilization	1	LS		
Total:					



Understanding the Legal Obligations

Special Benefit Area (SBA) Private Street Responsibilities



Master CC&Rs – All Owners Accessing Covenant Hills

ARTICLE VII OWNERS' PROPERTY RIGHTS AND PROJECT EASEMENTS

Living or working in a master planned community involves sharing and cooperation. The various types of properties and uses in the Covered Property require the creation of special property rights and provisions to address the needs of the variety of Persons living and working in the Covered Property. The property rights acquired by Owners and other Persons in the Covered Property are described in this Article along with limits on the exercise of those rights.

7.1 OWNERS' EASEMENTS OF ENJOYMENT. Every Owner has a right and easement of ingress and egress and of enjoyment in, to and over the LARMAC Property. Each such easement is appurtenant to and shall pass with title to every Lot or Condominium, subject to the following. Unless otherwise indicated, the rights of LARMAC described below may be exercised by the Board.

Special Benefit Area (SBA) Private Street Responsibilities

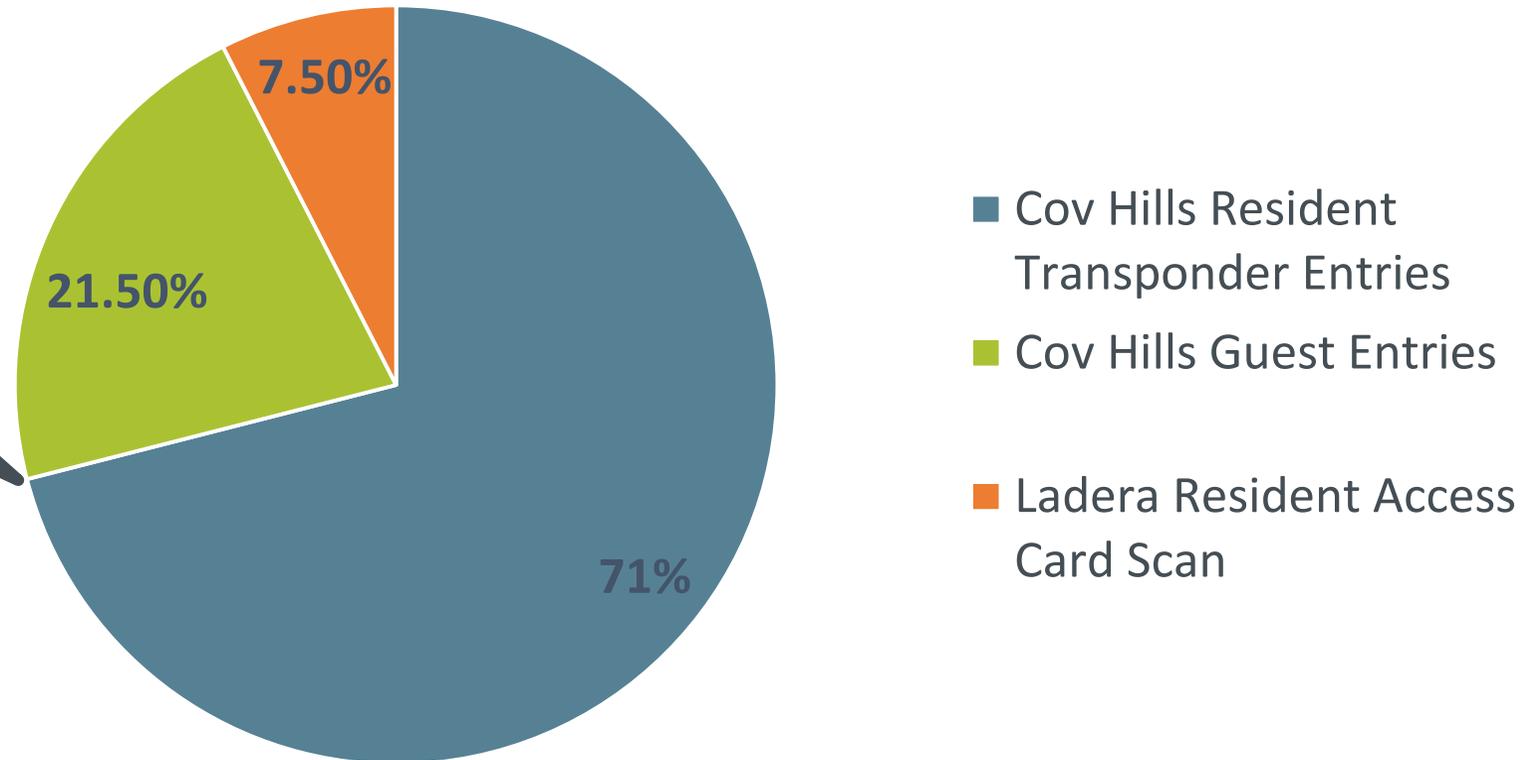


Master CC&Rs - All Owners Accessing Covenant Hills

7.2 EASEMENTS FOR VEHICULAR/PEDESTRIAN TRAFFIC. Declarant reserves, **for the benefit of all Owners** and the Subordinate Corporations, **nonexclusive easements** appurtenant to all the Lots, Condominiums and Neighborhood Property in the Covered Property **for vehicular and pedestrian traffic over the private streets and walkways** in the LARMAC Property, subject to the parking restrictions in Section 2.4.

Covenant Hills Vehicular Gate Access Gate: May – July 2022

Over 92% of
Vehicle Gate
Entries are from
CH Residents
and their Guests



Master CC&Rs

8.3.2 General Reserves. Disbursements from the General Reserve Fund shall be made to fund those Reserve expenditures which are not Budgeted to a Special Benefit Area.

8.3.3 Special Benefit Area Operations. Disbursements from each Special Benefit Area Operating Fund shall be made to fund the current operating Common Expenses of the Special Benefit Area for which the fund was created.

8.3.4 Special Benefit Area Reserves. Disbursements from each Special Benefit Area Reserve Fund shall be made to fund Reserve expenditures attributable to the Special Benefit Area for which the fund was created.

Master CC&Rs

8.4.3 Special Benefit Area Assessment Component. The portion of the Common Assessment collected to pay the portion of Common Expenses composed of Special Benefit Area Operating and Reserve Funds Budgeted exclusively to any particular Special Benefit Area (“Special Benefit Area Assessment Component”) shall be assessed to Lots and Condominiums designated in a Supplemental Declaration as responsible for the costs of the Special Benefit Area. Unless otherwise provided in a Supplemental Declaration, the Special Benefit Area Assessment Component shall be allocated among all of the Lots and Condominiums in such Special Benefit Area based on the number of Assessment Units allocated to the Lots and Condominiums.

Master CC&Rs

16.2.5 Special Benefit Areas. The Supplemental Declaration covering a Lot or Condominium subject to a Special Benefit Area Assessment Component shall: (i) identify the Special Benefit Area, if existing, or describe the Special Benefit Area if proposed; and (ii) identify the Lots or Condominiums covered by the Supplemental Declaration which are entitled to use the facilities of the Special Benefit Area or which are obligated to bear the exclusive or disproportionate maintenance of such Special Benefit Area and which shall be obligated to pay the Special Benefit Area Assessment Component attributable to such Special Benefit Area.

Supplemental CC&Rs

3.4. **Special Benefit Area.** The Lots in Amarante II/Bellataire II, Phase 1 are a part of the Covenant Hills Special Benefit Area (“*Covenant Hills SBA*”), which is a Special Benefit Area as defined in the Master Declaration. The Owners of Lots and Condominiums in the Covenant Hills SBA shall share the costs incurred by LARMAC in connection with its obligations to provide staffing for pedestrian and vehicular gates, and maintain such gates, private streets, sidewalks, street lighting, large landscaped slopes, fuel modification areas and related items (“*SBA Expenses*”). The Improvements designated in other Supplemental Declarations are areas to be maintained as a part of the Covenant Hills SBA. The SBA Expenses shall be allocated equally among the Owners of Lots and Condominiums in the Covenant Hills SBA based on the number of Lots and Condominiums in the Covenant Hills SBA that are owned and subject to Assessment.

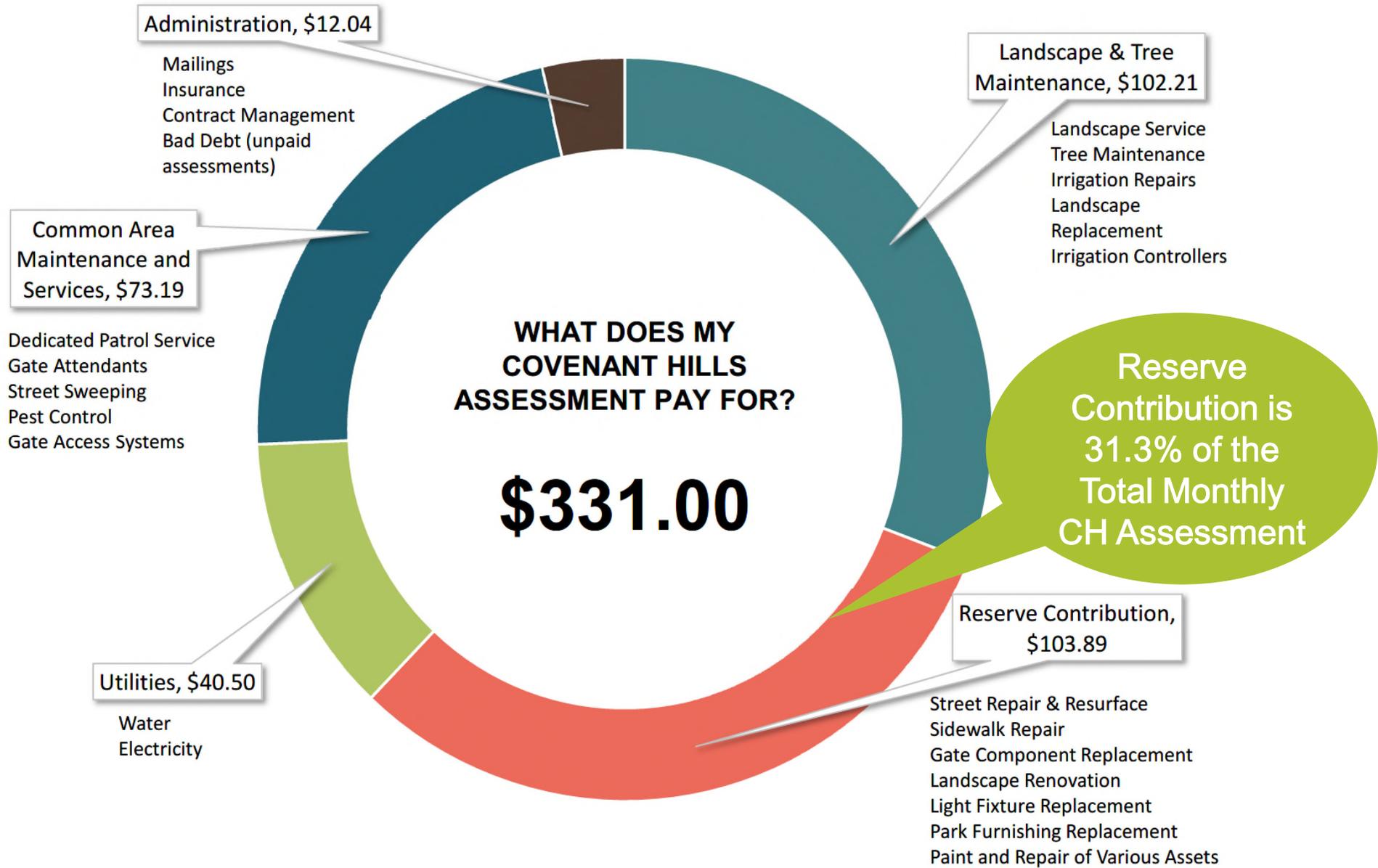
Understanding Reserve Funding & Options

Covenant Hills Private Street Funding

- The only source of private street funding comes from Covenant Hills homeowners – via the monthly assessments (currently \$331/mo.)
 - No portion of the homeowner Property Taxes/Mello-Roos fund Covenant Hills private streets
 - LARMAC does not receive any portion of the Community Enhance Fees (CEF), nor can these funds be used for street repairs.



Assessment Breakdown



Covenant Hills Assessment History

- Only 6 increases over a 19-year period – avg increase = 6.4%
- Prior to the recent 19.9% increase necessary to increase reserve funding, assessments have only increased by a total of 15% dating back to FY 2004-2005. During this same period...
 - CPI increased by 44%
 - Minimum wage increased by 122%
- Cov Hills assessment in FY 2007-2008 was \$240/mo.
 - 7% (\$17/mo.) going towards reserve contribution
 - 93% (\$223/mo.) going towards operating expenses
- Cov Hills assessment in current FY is \$331/mo.
 - 31% (\$104/mo.) going towards reserve contribution
 - 69% (\$227/mo.) going towards operating expenses



What is a Reserve Study?

By definition, the reserve analysis report is a budget-planning tool, which identifies the current status of the reserve fund and provides a stable and equitable funding plan to offset the anticipated expenditures of tomorrow. The contents are based on estimates of the most probable current replacement costs and remaining useful lives. Accordingly, the funding plans reflect judgments based on circumstances of the most likely replacement costs and the assumption of regular maintenance of useful and remaining lives. The property may elect to adopt any of the funding plans presented, or may implement some variation developed from the reserve analysis.

What is the Desired Percent Funded?

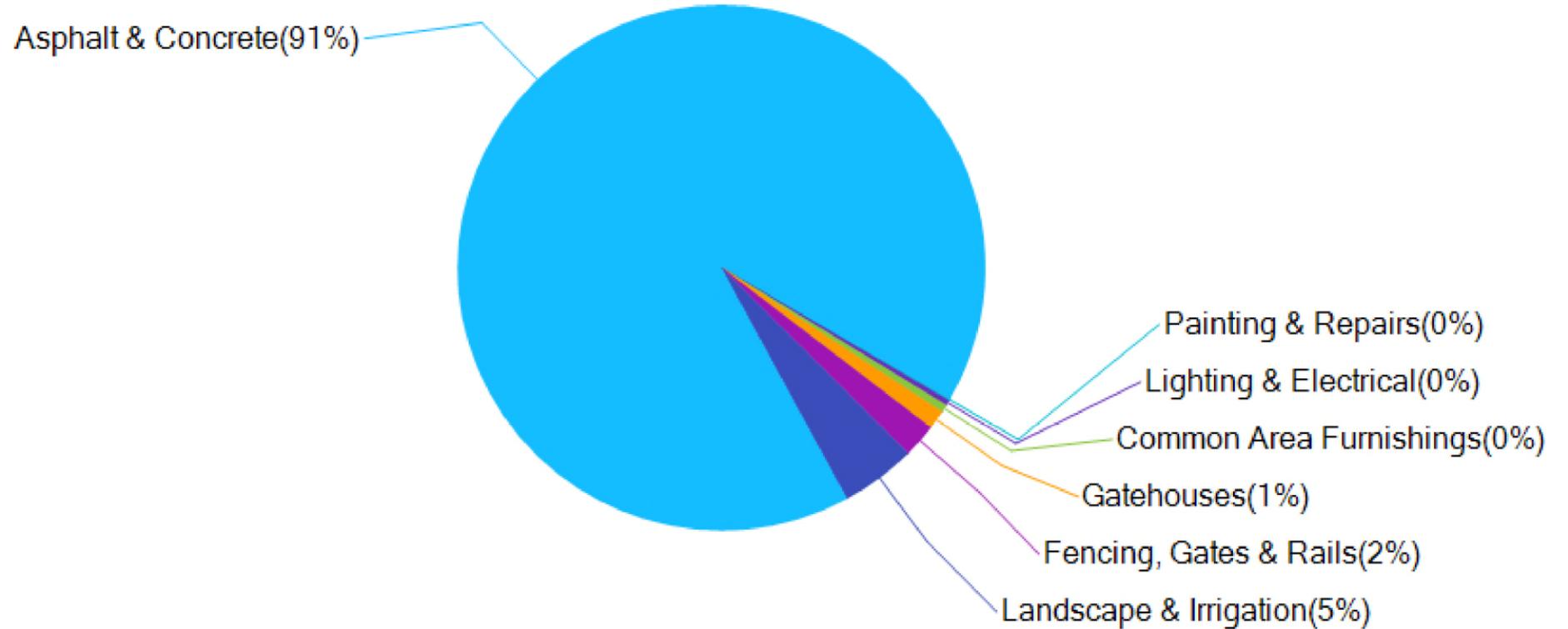
The higher the percentage is, the stronger or healthier your reserve fund is and the more confidence you'll have to pay for future repairs. If your Reserve Fund Balance equals the Fully Funded Reserve Balance, the reserve fund would be considered fully funded, or 100% funded. This is considered an ideal amount.

Think of the Reserve Fund Balance as the gas in your tank and the Fully Funded Reserve Balance as the ideal amount you need to fund your road trip. It's okay if the two don't match perfectly. Usually 70% funded or above is considered strong or healthy.



Asphalt is Largest Asset

Current Replacement Cost: \$20,539,348.00





Funding Street Repairs



Current Funding Plan

Standard Annual Increases

Percent Funded Decreases

Year	Annual Reserve Contributions	Monthly Reserve Contributions (Avg. Per Unit)	Starting Reserve Balance	Interest Earned	Total Reserve Funds	Anticipated Expenditures	Ending Reserve Balance	Fully Funded Reserve Balance	Percent Funded
Duration: 2 Years		Rate of Annual Reserve Contribution Increases: 5.00%				Additional Funds to Reserves: \$0.00			
2023-2024	\$1,399,755	\$116.65	\$2,182,701	\$21,623	\$3,604,079	\$1,440,521 ⓘ	\$2,163,559	\$13,821,984	16%
2024-2025	\$1,469,743	\$122.48	\$2,163,559	\$20,796	\$3,654,097	\$1,637,730 ⓘ	\$2,016,367	\$13,666,102	15%
Duration: 10 Years		Rate of Annual Reserve Contribution Increases: 3.00%				Additional Funds to Reserves: \$0.00			
2025-2026	\$1,543,230	\$128.60	\$2,016,367	\$19,652	\$3,579,249	\$1,645,541 ⓘ	\$1,933,707	\$13,528,335	14%
2026-2027	\$1,589,527	\$132.46	\$1,933,707	\$18,859	\$3,542,093	\$1,685,227 ⓘ	\$1,856,866	\$13,377,268	14%
2027-2028	\$1,637,213	\$136.43	\$1,856,866	\$16,862	\$3,510,941	\$1,978,505 ⓘ	\$1,532,436	\$12,952,198	12%
2028-2029	\$1,686,329	\$140.53	\$1,532,436	\$16,680	\$3,235,444	\$1,415,258 ⓘ	\$1,820,186	\$13,128,049	14%
2029-2030	\$1,736,919	\$144.74	\$1,820,186	\$13,654	\$3,570,759	\$2,646,439 ⓘ	\$924,320	\$12,075,537	8%
2030-2031	\$1,789,026	\$149.09	\$924,320	\$9,924	\$2,723,270	\$1,652,907 ⓘ	\$1,070,363	\$12,050,243	9%
2031-2032	\$1,842,697	\$153.56	\$1,070,363	\$6,697	\$2,919,758	\$2,643,983 ⓘ	\$275,774	\$11,039,842	2%

Limited Reserve Funds

Reserve Funding

Risks of Low Funding Levels

- Low percent funded level (e.g. current plan results in only 2% funded in 2031-2032)
- Unable to complete reserve projects (e.g. only \$275k in total reserve funds by 2031)
- Need to special assess all Covenant Hills homeowners to fund reserve projects
- Some mortgage lenders & prospective buyers may have concerns with the low funding level



Board of Directors & Fiduciary Duty - Prudent Funding

- Directors have a duty to act in the best interests of the association
- Directors have a duty to make decisions in good faith and with reasonable inquiry

Next Steps

- Determine the best method for building up reserve funds (e.g. lump sum payment or spread out over a few years) as part of upcoming budgeting process.
- Budget Timeline – The budgeting process for FY 2023-2024 kicks off in January 2023.
 - Budgeting process – Q1 of 2023
 - Open Session Meetings – Q1 of 2023
 - Budget Approval – April 2023



Homeowners encouraged to attend and observe discussions

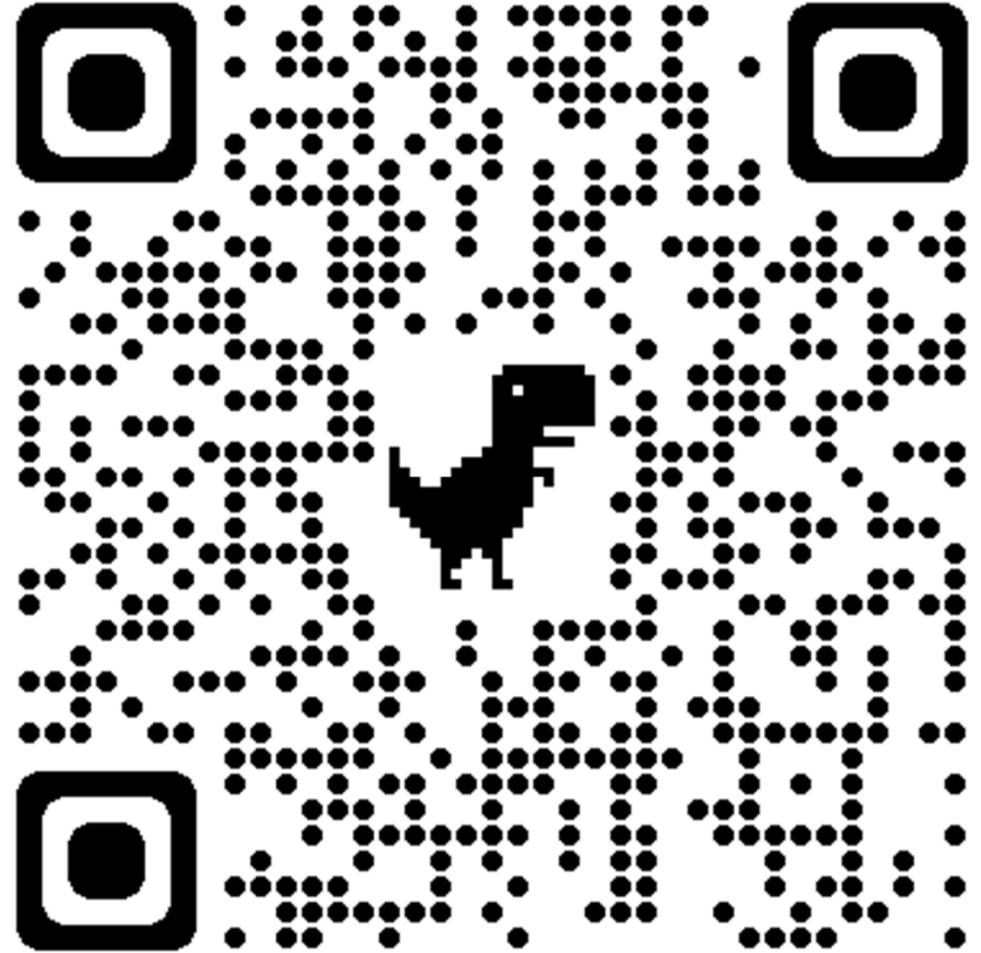


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Thank You